FOOTHILLS

Oil & Gas Ltd.

ANNUAL REPORT

DECEMBER 31, 1999

CORPORATE PROFILE

Foothills Oil & Gas Ltd. is a Calgary based, public oil and gas company. It is engaged in the production, acquisition and development of hydrocarbons in Canada. Management is currently pursuing growth through the acquisition of producing properties where it has identified future upside potential. The common shares of the Company are listed for trading on the Canadian Venture Exchange under the symbol "FH".

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ANNUAL GENERAL MEETING

Shareholders and members of the public who are interested in receiving more information are invited to attend the Company's Annual Meeting to be held at the offices of Macleod Dixon, 3700, 400 - 3rd Avenue S.W., Calgary, Alberta at 9:00 a.m. on Tuesday, June 20, 2000.

HIGHLIGHTS

		December 31, 1999		December 31, 1998
Production				
Oil and natural gas liquids (barrels per day)		86		64
Sales price (per barrel)		$ 24.48		$ 14.30
Natural gas (thousand cubic feet per day)		602		464
Sales price (per thousand cubic feet)		$ 2.68		$ 1.76
Barrels of oil equivalent per day		146		111
Reserves (barrels of oil equivalent)		1,133,104		680,000
Financial				
Revenue (before royalties)	$	1,358,961	$	634,265
Cash flow from operations before changes in working capital	$	500,265	$	131,240
per common share (basic)	$	0.03	$	0.01
Net earnings (loss)	$	173,929	$	(72,033)
per common share (basic)	$	0.01	$	(0.01)
Capital expenditures	$	1,784,457	$	1,691,408
Working capital	$	(94,668)	$	25,458
Common shares outstanding (year-end)		15,395,000		13,295,000
Common shares outstanding (weighted average)		14,659,589		12,490,178

Report to Shareholders

This Annual Report covers the twelve month period from January 1, 1999 to December 31, 1999.

During the past year, the Company experienced significant growth in all areas. During the downturn in commodity prices, the Company aggressively pursued the acquisition of high quality producing assets. The impact of these acquisitions and subsequent exploitation activities is now being seen.

Oil and liquids production averaged 86 barrels per day during 1999 compared to 64 barrels per day in 1998. Production for the fourth quarter of 1999 averaged 105 barrels per day. Natural gas production averaged 602 thousand cubic feet per day in 1999 compared to 464 thousand cubic feet per day in 1998. Fourth quarter 1999 natural gas production averaged 776 thousand cubic feet per day. Total production for 1999 averaged 146 barrels of oil equivalent per day compared to 111 barrels of oil equivalent per day in 1998. Fourth quarter 1999 production averaged 183 barrels of oil equivalent.

Reserves have also increased significantly over the period. Oil reserves increased to 602,704 barrels from 330,000 barrels a year earlier with 86% of the reserves being proved. Natural gas reserves increased to 5.3 billion cubic feet from 3.5 billion cubic feet in 1998 with 98% of this total being proved.

In June of 1999, the Company completed its acquisition of all of the outstanding shares of Titania Resources Ltd. These shares were acquired in exchange for the issuance of 1.3 million common shares of Foothills, a $600,000 convertible, redeemable debenture and a cash payment of $500,000. The assets were assigned to Foothills on June 1 and Titania was subsequently dissolved as a corporation.

In a related transaction, the Company also closed a financing in June which resulted in the issuance of a $220,000 convertible, redeemable debenture.

Also during the year, the Company arranged an increase to its line of credit to $2,000,000. The available credit facility reduces by $42,000 per month commencing January 1, 2000. At year end, the Company had $680,000 of unused line of credit.

During the latter part of 1999 and into 2000, the Company's attention has shifted to the exploitation of its assets. Gas production in the Clive and Rycroft areas have been added and a detailed seismic review in the Hayter area is underway. The Company has successfully negotiated a seismic review option on acreage offsetting its 98% owned Hayter property and anticipates the drilling of several wells on the property during the balance of 2000.

In addition to the development activity, Management continues to evaluate potential acquisitions and opportunities with the aim of securing additional core areas for future growth.

Management, directors and staff look to the upcoming year with enthusiasm.

William J. Kiff
President

OPERATIONS

With the addition of the Rycroft property located in north west Alberta, the Company produced an average of 86 barrels of oil and liquids per day compared to 64 barrels per day during 1998. Increased production from the Company's Chigwell property resulted in natural gas production for the period of 602 thousand cubic feet per day compared to 464 thousand cubic feet per day a year earlier. Total Company production was 146 barrels of oil equivalent per day compared to 111 barrels of oil equivalent a year earlier. Fourth quarter 1999 production averaged 183 barrels of oil equivalent per day reflecting the full effect of the Titania acquisition. Revenue for the period increased 114% to $1,358,961 from $634,265 in 1998. The price received for our oil and liquids production increased to $24.48 per barrel from $14.30 in 1998. Prices received for our natural gas production increased to $2.68 per thousand cubic feet from $1.76 a year earlier. Cash flow from Operations was $500,265 compared to $131,240 while the income for the period increased to $173,929 from a loss of $72,033 a year earlier. Production and revenues from the newly acquired Titania property were recorded beginning June 1, 1999.

RESERVES

The Company's oil and gas reserves, all located in Canada, were evaluated by Outtrim Szabo Associates Ltd. effective January 1, 2000.

Total oil and natural gas liquids reserves net to Foothills increased to 602,704 barrels compared to 330,000 barrels a year earlier while total natural gas reserves net to the Company were 5,304,000 thousand cubic feet compared to 3,499,000 thousand cubic feet. Proved reserves account for 92% of the Company's total reserves. The value of the reserves, using a 15% present value, increased to $8,285,000 compared to $4,664,000 a year earlier.

COMPANY WORKING INTEREST RESERVES BEFORE ROYALTIES
as at January 1, 2000

	Crude Oil (barrels)	Natural Gas (mcf)	Present Value 15% DCF ($)
Proved			
Producing	245,039	1,817,000	$4,339,993
Non-Producing	271,309	3,408,000	$3,653,007
Total Proved	516,348	5,225,000	$7,993,000
Probable	86,356	79,000	$ 292,000
Total	602,704	5,304,000	$8,285,000

AUDITORS' REPORT

To the Shareholders of
Foothills Oil & Gas Ltd.

We have audited the balance sheets of **Foothills Oil & Gas Ltd.** as at December 31, 1999 and 1998 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Calgary, Canada
May 8, 2000

Chartered Accountants

Foothills Oil & Gas Ltd.

BALANCE SHEETS
as at December 31

	1999 $	1998 $
ASSETS		
Current		
Cash	**22,880**	11,764
Accounts receivable	**271,165**	141,597
Inventory, prepaid expenses and deposits	**111,857**	25,144
	405,902	178,505
Property and equipment *(notes 3 & 4)*	**3,913,126**	2,560,344
	4,319,028	2,738,849
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	**500,571**	153,047
Current portion long-term debt	**-**	360,000
	500,571	513,047
Long-term debt *(note 5)*	**1,320,000**	1,010,000
Debentures *(note 6)*	**820,000**	-
Abandonment and site restoration provision	**46,600**	28,200
Deferred income taxes *(note 8)*	**41,100**	-
	2,728,271	1,551,247
Shareholders' equity		
Share capital *(note 7)*	**1,910,041**	1,680,815
Deficit	**(319,284)**	(493,213)
	1,590,757	1,187,602
	4,319,028	2,738,849

See accompanying notes.

Approved by the Board

Signed

Andy Papadopoulos

Signed

Foothills Oil & Gas Ltd.

STATEMENTS OF OPERATIONS AND DEFICIT

for the years ended December 31

	1999 $	1998 $
Revenue		
Petroleum and natural gas sales	**1,358,961**	634,265
Royalties, net of Alberta Royalty Tax Credit	**(118,895)**	(48,428)
	1,240,066	585,837
Expenses		
Operating expenses	**382,825**	227,741
General and administrative *(note 4)*	**207,096**	162,421
Long-term debt interest	**96,502**	64,435
Debenture interest	**53,378**	-
Depletion, amortization and site restoration	**285,236**	203,273
	1,025,037	657,870
Income (loss) before taxes	**215,029**	(72,033)
Deferred income taxes	**41,100**	-
Net income (loss) for the year	**173,929**	(72,033)
Deficit, beginning of year	**(493,213)**	(421,180)
Deficit, end of year	**(319,284)**	(493,213)
Income (loss) per share		
Basic and fully diluted *(note 9)*	**0.01**	(0.01)

See accompanying notes.

STATEMENTS OF CASH FLOWS
for the years ended December 31

	1999 $	1998 $
Operating		
Net income (loss) for the year	**173,929**	(72,033)
Add items not requiring cash		
Depletion, amortization and site restoration	**285,236**	203,273
Deferred income taxes	**41,100**	-
Cash flow from operations	**500,265**	131,240
Changes in non-cash working capital items	**131,242**	(21,298)
Cash provided by operating activities	**631,507**	109,942
Financing		
Debentures	**220,000**	-
Issuance of common shares, net of issue costs	**155,066**	378,604
Bank loan	**(50,000)**	1,200,000
Cash provided by financing activities	**325,066**	1,578,604
Investing		
Acquisition of Titania Resources Ltd.	**(462,409)**	-
Acquisition of properties	**-**	(1,376,465)
Expenditures on property and equipment	**(483,048)**	(314,943)
Cash used in investing activities	**(945,457)**	(1,691,408)
Increase (decrease) in cash during the year	**11,116**	(2,862)
Cash, beginning of year	**11,764**	14,626
Cash, end of year	**22,880**	11,764
Cash flow from operations per share		
Basic and fully diluted *(note 9)*	**0.03**	0.01

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS
December 31, 1999 and 1998

1. BASIS OF PRESENTATION

Foothills Oil & Gas Ltd. (the "Company") was incorporated under the provisions of the Business Corporations Act (Alberta) on September 3, 1993 and is listed on the Canadian Venture Exchange. The Company is engaged in the exploration for and the production of petroleum and natural gas predominately in western Canada.

2. SIGNIFICANT ACCOUNTING POLICIES

Capitalized costs

The Company follows the full cost method of accounting for its petroleum and natural gas properties in accordance with the guideline issued by the Canadian Institute of Chartered Accountants whereby all costs related to the acquisition of, exploration for and development of petroleum and natural gas reserves, whether productive or unproductive, are capitalized in a Canadian cost centre and charged to income as set out below.

Capitalized costs include lease acquisition costs, geological and geophysical expenditures, lease rentals on non-producing properties, costs of drilling both productive and non-productive wells, equipment costs and general and administrative costs directly related to exploration and development activities.

Proceeds from disposal of properties will normally be applied as a reduction of the cost of the remaining assets unless the disposal represents a significant disposition of reserves, in which case a gain or loss will be recorded.

Depletion and amortization

Depletion of petroleum and natural gas properties and amortization of production equipment is provided using the unit-of-production method based on estimated gross proved petroleum and natural gas reserves as determined by independent engineers. Amortization of production equipment is based on the cost of the assets net of estimated salvage or residual value. The relative amounts of oil and gas production are converted at a ratio of ten thousand cubic feet of gas to one barrel of oil.

Office furniture and fixtures are carried at cost and amortized over the estimated useful lives of the assets at a rate of 20% calculated on a declining balance basis. Amortization is charged at half rates in the year of acquisition.

Ceiling test

The Company applies an annual ceiling test to the net carrying value of petroleum and natural gas properties to ensure that such costs do not exceed the estimated amount ultimately recoverable. This amount includes the estimated value of future net revenues from production of proven reserves and the cost of unproved properties, net of an impairment allowance, less future estimated production related general and administrative expenses, financing expenses, estimated future abandonment and site restoration costs and income taxes. Future net revenues are estimated using yearend wellhead prices and costs without escalation or discounting, and the income, capital tax and Alberta royalty tax credit legislation in effect at year end. Any reduction in value, as a result of the ceiling test, is charged to operations.

Future abandonment and site restoration costs

The estimated cost of future abandonment and site restoration is based on the current costs and the anticipated method and extent of site restoration in accordance with existing legislation and industry practice. The annual

charge, provided for on a unit of production basis, is accounted for as an expense. Abandonment and site restoration expenditures are charged to the accumulated provision account as incurred.

Measurement uncertainty

The amounts recorded for depletion and amortization of property and equipment and the provision for future site restoration costs are based on estimates. The ceiling test calculation is based on estimates of proved reserves, production rates, oil and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future years could be significant.

Flow-through shares

The Company has financed a portion of its exploration and development activities through the issue of flow-through shares. Under the terms of the flow-through share issues, the tax attributes of the related expenditures are renounced to subscribers. To recognize the foregone tax benefits to the Company, the carrying value of the properties acquired and the shares issued are recorded net of the tax benefits renounced to subscribers as the related expenditures are incurred.

Joint operations

Substantially all of the Company's exploration and development activities are conducted jointly with others and, accordingly, these financial statements reflect only the Company's proportionate interest in such activities.

Financial instruments

Financial instruments of the Company consist mainly of cash, accounts receivable, accounts payable, accrued liabilities and long-term debt. As at December 31, 1999 and 1998, there are no significant differences between the carrying amounts reported on the balance sheet and their estimated fair values.

Stock based compensation plan

The Company's stock-based compensation plan is described in note 7. Consideration paid by employees, or directors on the exercise of stock options is credited to share capital. Options are issued at current market value; consequently no compensation expense is recorded.

3. ACQUISITION

Effective May 28, 1999, the Company acquired all the issued and outstanding shares of Titania Resources Ltd. a corporation incorporated under the laws of the Province of Alberta involved in the exploration, development and production of petroleum and natural gas in Western Canada. Effective June 1, 1999 all the assets and liabilities of Titania Resources Ltd. were assigned to the Company. The acquisition has been accounted for by the purchase method of accounting as follows:

NOTES TO FINANCIAL STATEMENTS
December 31, 1999 and 1998

	$
Consideration given:	
Issue of 1,300,000 common shares	239,000
Convertible debenture bearing interest a rate of 11% per annum	600,000
Cash payments	500,359
Acquisition costs	2,750
	1,342,109
Allocation of purchase price:	
Property and equipment	1,301,409
Working capital	40,700
	1,342,109

The financial statements include the net assets acquired and results of operations of Titania from the assignment date. Effective June 8, 1999 Titania Resources Ltd. was dissolved as a corporation. The non-cash portion of the acquisition has been excluded from the Statement of Cash Flows for 1999.

4. PROPERTY AND EQUIPMENT

	December 31, 1999			December 31, 1998		
	Cost $	Accumulated depletion and depreciation $	Net book value $	Cost $	Accumulated depletion and depreciation $	Net book value $
Petroleum and natural gas properties and equipment	4,799,178	913,200	3,885,978	3,195,894	655,100	2,540,794
Office furniture and fixtures	56,348	29,200	27,148	40,014	20,464	19,550
	4,855,526	942,400	3,913,126	3,235,908	675,564	2,560,344

During the year ended December 31, 1999, the Company capitalized general and administrative expenditures of $181,931 (1998 - $160,766) related to exploration, development and acquisition activities.

During the year, the Company reduced the carrying value of petroleum and natural gas properties by $164,840 (1998 - $109,017) to recognize the foregone tax benefits to the Company of qualifying exploration and development expenditures incurred and renounced to the purchasers of its flow-through shares.

As at December 31, 1999, petroleum and natural gas properties include $309,714 (1998 - $354,150) relating to unproved properties which have been excluded from the depletion calculation.

NOTES TO FINANCIAL STATEMENTS
December 31, 1999 and 1998

5. LONG-TERM DEBT

During the year the Company increased its revolving reducing loan facility to $2,000,000 which bears interest at the bank's prime rate plus .75%. The maximum principal amount available is permanently reduced by $42,000 per month commencing January 1, 2000. A general assignment of assets and a fixed and floating debenture in the amount of $5,000,000 have been pledged as collateral.

6. DEBENTURES

At December 31,1999, the Company has 11% interest bearing debentures in the amount of $820,000. The debenture holders have the right, at their option prior to May 19, 2004 to convert to common shares based on specified conversion prices ranging from $0.25 to $0.50. The Company has the option to redeem these debentures after May 20, 2001 up to May 19, 2004 at the then current market price.

7. SHARE CAPITAL

Authorized

Unlimited common shares without par value
Unlimited non-voting, first and second preferred shares, issuable in series
The directors of the Company are authorized to determine the designation, rights, privileges, restrictions and conditions attaching to all of the preferred shares.

Common Shares Issued and Outstanding	Number of Shares	$
Balance, December 31, 1997	**11,715,000**	**1,411,228**
Flow-through common shares issued pursuant to private placements	1,580,000	395,000
Share issue costs	-	(16,396)
Tax benefits renounced	-	(109,017)
Balance, December 31, 1998	**13,295,000**	**1,680,815**
Shares issued pursuant to Titania acquisition	1,300,000	239,000
Shares issued pursuant to private placements	800,000	160,000
Share issue costs	-	(4,934)
Tax benefits renounced	-	(164,840)
Balance, December 31, 1999	**15,395,000**	**1,910,041**

During 1999, the Company renounced for income tax purposes, exploration and development expenditures in the aggregate of $ nil (1998 - $395,000). To recognize the foregone tax benefits relating to the renounced expenditures, the carrying values of property and equipment and share capital have been reduced by a total of $164,840 (1998 - $109,017) in respect of the incurred expenditures.

NOTES TO FINANCIAL STATEMENTS
December 31, 1999 and 1998

Common Shares Reserved for Employees and Consultants

The Company has a stock option plan, which is administered by the Board of Directors in which up to 10% of the issued Class A shares are reserved for issuance pursuant to this plan. The options vest immediately and expire the earlier of five years from date of grant or three months from the date from which the optionee ceases to be a director, officer, employee or consultant of the Company. The outstanding options expire on dates ranging from 2001 to 2004. The options are accounted for upon exercise of the option.

	Number of options	Average Exercise Price
Beginning of year	1,170,000	$0.15
Granted	265,000	$0.21
End of year	1,435,000	$0.16
Exercisable at end of year	1,435,000	$0.16

8. INCOME TAXES

The provision for income taxes differs from the calculated tax obtained by applying the combined statutory Canadian federal and provincial tax rate to the income before taxes as follows:

	December 31	
	1999	1998
	$	$
Corporate tax rate	44.34%	44.34%
Expected taxes (recovery)	95,344	(31,939)
Resource allowance	(55,903)	(7,579)
Non-deductible royalties	14,716	1,993
Prior years' losses	(20,620)	(9,437)
Other	7,563	(1,250)
Deferred tax expense (benefit not recognized)	41,100	(48,212)

At December 31, 1999, the Company had exploration and development costs, undepreciated capital costs and unamortized share issue costs available for deduction against future taxable income of approximately $ 2,600,000.

9. PER COMMON SHARE AMOUNTS

The calculations of loss and cash flow from operations per share is based on the weighted average number of common shares outstanding during the year ended December 31, 1999 of 14,659,589 (1998 – 12,490,178). The fully diluted weighted average number of shares outstanding during the year ended December 31, 1999 is 15,963,178 (1998 – 13,602,644).

10. COMMITMENTS

The Company has future operating lease obligations for office premises as follows:

2000 - $21,720
2001 - $ 9,050

CORPORATE INFORMATION

DIRECTORS

Kevin A. Kelly
Managing Director
RBC Dominion Securities (Global) Limited
Nassau, Bahamas

William J. Kiff
President of the Company
Calgary, Alberta

Susan J. McArthur
President, McArthur & Associates
Toronto, Ontario

Andy Papadopoulos
President, BIS Technology Inc.
Calgary, Alberta

Raymond A. Siwiec
President, First Canadian Energy Ltd.
Calgary, Alberta

OFFICE

Suite 1620, 734 - 7th Avenue S.W.
Calgary, Alberta T2P 3P8
(403) 264-7911
(403) 237-8105 (fax)

AUDITORS

Barr Shelley Stuart
Calgary, Alberta

Abbreviations

bbl	barrels
boe	barrels of oil equivalent
mcf	thousands of cubic feet
ARTC	Alberta Royalty Tax Credit

OFFICERS

William J. Kiff
President

Charles W. Berard
Corporate Secretary

Wayne D. Fast
Vice President

SOLICITORS

Macleod Dixon
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

Montreal Trust Company of Canada
Calgary, Alberta

STOCK EXCHANGE LISTING

The Canadian Venture Exchange
Symbol: FH